

Mr. DORGAN. The Senator from North Dakota [Mr. CONRAD] raised a question about the highway issue. I just wanted to follow up briefly.

The Senator from Mississippi will recall that the chairman of the transportation committee of the other side some many weeks ago indicated he would not even go to conference on a 6-year bill, and so we got tangled up for a lot of reasons, including I think the desire of some on the other side only to consider a 6-month bill. That pole vaults this into next year at some point when the Senator talks about May 1. I understand and share with him the need to be some end date that applies the pressure to say now we need to get the 6-year bill and get it done, because we cannot continue this approach of incremental funding without some understanding by the States of what they have to work with in the long run.

I have not had an opportunity to make contact or have discussions with folks in the other body, but when they indicated an unwillingness even to go to conference if we come up with a 6-year bill, it suggests an approach radically different than most of us in the Senate would have wanted.

Mr. LOTT. That is absolutely the case. But the problem they had in the House—we both served in the House; we know what it is like—highway infrastructure and transportation funds are very, very important in every State. This is not a partisan issue. This is an issue that divides us, some not really even by regions; States side by side can have a different view of the formula. And I think they pushed the 6-month proposal because they could not get the votes for anything else right then. But I think if the Senate does not show leadership and keep the pressure on them, we will never get this issue resolved.

That is why I had not wanted to do anything akin to 6 months. I wanted us to have some basic flexibility so States could reprogram, move funds around and make sure we had the safety fund but keep the heat on.

But I think the best thing that we could do on that right now is to make sure there is not a short-term problem with availability of funds, realizing that in the colder States you need to do contracting in December and perhaps early January to have those programs underway in the spring.

But again, it is my intent for the Senate to go ahead and take up this issue and address it early to put pressure on the House and also so that whenever they do get their act together and vote, we will be ready for conference. But I do think it is irresponsible for a Member on either side of the aisle, whether he or she be a chairman or not, to say they are not going to go to conference with the other body if the other body doesn't pass a bill that they like. We have feifdoms around here, but I believe we should not have that type of attitude

or we will never bring this important issue to a reasonable conclusion.

That is all I am pushing for. That is why I have tried to push this bill all this year. Frankly, in our own body I think our colleagues made a mistake by letting it drag out to this fall. I thought it should have been done last spring. I had a tentative schedule for the Senate to take it up in April of this year, last April. I know they had a hard time working it out in committee, but to their credit they worked it out and brought out a good, broadly bipartisan bill.

It will be a focus that we need to work on and we need to do it earlier in the year, because if we wait until next September right before elections, there will be no way we can do it.

Mr. DORGAN. Mr. President, I understand the comments of the Senator from Mississippi. I really share his desire to move on this early next year. I think the committee has done an exceptional job. I like the highway bill they brought to the floor, the 6-year bill. If we can move something like that early next year, I think we will have provided some significant leadership. So I appreciate very much the leadership of the Senator from Mississippi.

Mr. LOTT. I yield the floor, Mr. President.

#### MORNING BUSINESS

The PRESIDING OFFICER. Under the previous order, there will now be a period for the transaction of morning business not to extend beyond the hour of 10:30 a.m., with Senators permitted to speak therein for up to 10 minutes each.

#### MAKING FURTHER CONTINUING APPROPRIATIONS, 1998

Mr. LOTT. We do have the continuing resolution and so I would just like to take 1 minute and go ahead and move that.

I ask unanimous consent that the Senate now turn to House Joint Resolution 105 making continuing appropriations through Friday, November 14; that the joint resolution be considered read the third time and passed and the motion to reconsider be laid upon the table, all without further action or debate.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

The joint resolution (H.J. Res. 105) was considered read the third time and passed.

Mr. LOTT. I yield the floor.

The PRESIDING OFFICER. The Senator from the State of Alaska.

Mr. MURKOWSKI. Mr. President, I believe we are in a period of morning business?

The PRESIDING OFFICER. That is correct. The Senator has up to 10 minutes to speak.

Mr. MURKOWSKI. I thank the Chair.

#### AMENDMENTS TO THE INTERNAL REVENUE CODE REGARDING TAX-EXEMPT OUTPUT FACILITY BONDS

Mr. MURKOWSKI. Mr. President, today we are on the verge of a revolution, the revolution of the transmission and distribution of electricity that is fast bringing about competition and deregulation to both the wholesale and retail level. Nowhere has the competitive model advanced further than in the State of California, where full deregulation will become a reality at the beginning of 1998. As many as 13 other States representing one-third of America have moved to competition in the electric industry. These are States with a significant population center.

On Saturday, November 8, I introduced legislation referred to the Finance Committee, and I believe that it will enhance the States' ability to facilitate competition. The legislation arises from the Energy Committee's intensive review of the electric power industry and from the Joint Tax Committee's report that I requested.

Over the past two Congresses, the committee has held 14 hearings and workshops on competitive change in the electric power industry, receiving testimony from more than 130 witnesses. One of the workshops specifically focused on how public power utilities will participate in the competitive marketplace. At these and in other forums, concerns have been expressed by representatives of public power about the potential jeopardy to their tax-exempt bonds if they participate in State competitive programs, or if they transmit power pursuant to FERC Order No. 888, or pursuant to a Federal Power Act section 211 transmission order.

The Joint Tax Committee report, titled "Federal Income Tax Issues Arising in Connection with Proposal to Restructure the Electric Power Industry," concluded that current tax laws effectively preclude public power utilities from participating in State open access restructuring plans without jeopardizing the tax-exempt status of their bonds. Under the tax law, if the private use and interest restriction is violated, the utility's bonds become retroactively taxable.

These concerns have been echoed by the FERC. For example, in FERC Order No. 888, the Commission stated the reciprocal transmission service by a municipal utility will not be required if providing such service would jeopardize the tax-exempt status of the municipal utility. A similar concern exists if FERC issues a transmission order under section 211 of the Federal Power Act.

Mr. President, if consumers and businesses are to maximize the full benefits of open competition in this industry it will be necessary for all electricity providers to interconnect their facilities into the entire electric grid. Unfortunately, this system efficiency is significantly impaired because of current

tax law rules that effectively preclude public power entities—entities that financed their facilities with tax-exempt bonds—from participating in a State open access restructuring plans and Federal transmission programs, without jeopardizing the exempt status of their bonds.

No one wants to see bonds issued to finance public power become retroactively taxable because a municipality chooses to participate in a State open access plan. That would cause havoc in the financial markets and could undermine the financial stability of many municipalities. At the same time, public power should not obtain a competitive advantage in the open marketplace based on the Federal subsidy that flows from the ability to issue tax-exempt debt. Clearly we must provide for the transition to allow public providers to enter the private competitive marketplace without severe economic dislocation for municipalities and consumers.

To remedy this dilemma, I have introduced legislation that will allow municipal utilities to interconnect and compete in the open marketplace without the draconian retroactive impacts currently required by the Tax Code. My bill is modeled after legislation that passed Congress last year which addressed electricity and gas generation and distribution by local furnishers.

My bill removes the current law impediments to public power's capacity to participate in open access plans if such entities are willing to forego future use of federally subsidized tax-exempt financing. If public power entities make this election, and choose to compete on a level playing field with other electric power suppliers, tax exemption of the interest on their outstanding debt will be unaffected. They will be allowed an extended period during which outstanding bonds subject to the private use restrictions may be retired instead of retroactive taxation, which is the situation under existing law. The relief provided by my bill applies equally to outstanding bonds for electric generation, transmission, and distribution facilities. This would occur 6 months after the date of the bonds.

Mr. President, without this legislation, public power will face an untenable choice: either stay out of the competitive marketplace or face the threat of retroactive taxability of their bonds. With this legislation, public power will be able to transition into the competitive marketplace.

Let me provide a few examples of real-world choices that public power faces today. According to the Joint Tax Committee report, the mere act of transferring public power transmission lines to a privately operated independent service operator [ISO] could cause the public entity's tax exempt bonds to be retroactively taxable. Similarly, a transfer of transmission lines to a State operated ISO could, in many instances, trigger similar retroactive loss of tax-exemption depending on the

amount or value of the power that is transmitted along those lines to private users. Moreover, participation in a State open access plan could, de facto, force public power entities to take defensive actions to maintain their competitive position which could inevitably lead to retroactive taxation of their bonds. Such actions would include offering a discounted rate to selective customers or selling excess capacity to a broker for resale under long-term contract at fixed rates or discounted rates.

I have also heard from the California Governor and members of the California Legislature about many of these problems and the need for legislation to address them. I stand ready to work with them and representatives from other States to solve this problem as part of the legislation I have introduced.

Mr. President, my bill allows public power to participate in the new competitive world and provides a safe harbor within which they can transition from tax-exempt financing to the level playing field of the competitive marketplace. In addition, the legislation recognizes that there are some transactions that public power entities engage in that should not jeopardize the tax-exempt status of their bonds under current law and seeks to protect those transactions by codifying the rules governing them. This list may need to be expanded and I look forward to the input of the affected utilities in this regard.

In general, the exceptions contained in this bill closely parallel the policies enunciated in the legislative history of the amendments made in the 1986 Tax Reform Act. For example, the sale of electricity by one public power entity to another public power entity for resale by the second public power entity would be exempt so long as the second public power entity is not participating in a State open access plan. In addition, a public power entity would be allowed to enter into pooling and swap arrangements with other utilities if the public power entity is not a net seller of output, determined on an annual basis. Finally, the bill contains a de minimis exception for sale of excess output by a facility when such sales do not exceed \$1 million.

Mr. President, this legislation attempts to balance many competing interests. This will be a difficult transition and this legislation does not address all the difficult problems to be faced. This is why I emphasize today that this is a starting point for discussion over the months ahead.

I look forward to receiving comments from all interested parties and will encourage Finance Committee Chairman ROTH to hold hearings on this bill early next year.

I am open to making revisions to this bill consistent with a public policy that emphasizes a level playing field and a soft transition to competition for our important public utilities. I look

forward especially to working with the chairman of the Senate Finance Committee, Senator ROTH, who has been a leader in addressing tax issues relating to competition in this industry.

#### INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT

Mr. HATCH. Mr. President, I was very pleased that the Senate has acted on S. 1454 and want to commend Senators CHAFEE, WARNER, BAUCUS, and BOND for coming up with this extension bill for the Intermodal Surface Transportation Efficiency Act [ISTEA]. Despite the fact that this temporary extension of ISTEA is just that—temporary—and obviously not a preferred way of doing business, I welcome it. I join in urging the House of Representatives to take it up and pass it. It will provide a modicum of certainty for the States given that we were unable to pass S. 1173, the 6-year reauthorization of ISTEA.

We all know that ISTEA is an essential piece of legislation. It is precisely because of its great importance and significance to every State that it generates controversy. Among the many controversial issues associated with the reauthorization are certain labor provisions, safety and environmental concerns, and the always difficult issue of the distribution of highway funding.

Believe me, I am well aware of how difficult it is to build majorities—and, in the case of ISTEA, a super-majority—on controversial legislation.

Let me say unequivocally for the record that I support the 6-year authorization measure that Senator CHAFEE and the other members of the Environment and Public Works Committee brought to the Senate floor last month. Though it would be hard to imagine any transportation funding bill being 100 percent perfect from the standpoint of any one State, this bill was a solid bill and one I was pleased to support. In fact, I voted for this bill four times in the form of four cloture votes.

But, Senator CHAFEE, despite his best efforts, was not allowed to move this bill. Unfortunately, as we all know, ISTEA fell victim to the efforts of those on the other side of the aisle to force the Senate to act on another piece of legislation; namely, campaign finance reform.

Well, Mr. President, I am here to tell you that Utahns are indeed interested in campaign finance reform. But, at the moment, with numerous road construction projects underway, and facing a 2002 deadline for the Winter Olympic Games, they are equally if not more interested in ISTEA.

The people of every State in the Union are going to pay dearly for the filibuster waged against ISTEA for the sake of campaign finance reform. They will be paying for it with bad roads, unrepaired bridges, and unimproved mass transit. They are going to pay for it with delays in making the necessary improvements.